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ABSTRACT

This instructor guide for a unit on the nature of small business in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 3 of learning--starting and managing one's own business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: the free enterprise system; customer-driven economies; determination of a local community's business environment (market, suppliers, competitors, growth trends, infrastructure, and government regulations); use of government Standard Industrial Classification codes in business; advantages and risks of business ownership; and opportunities for entering international markets. (MN)

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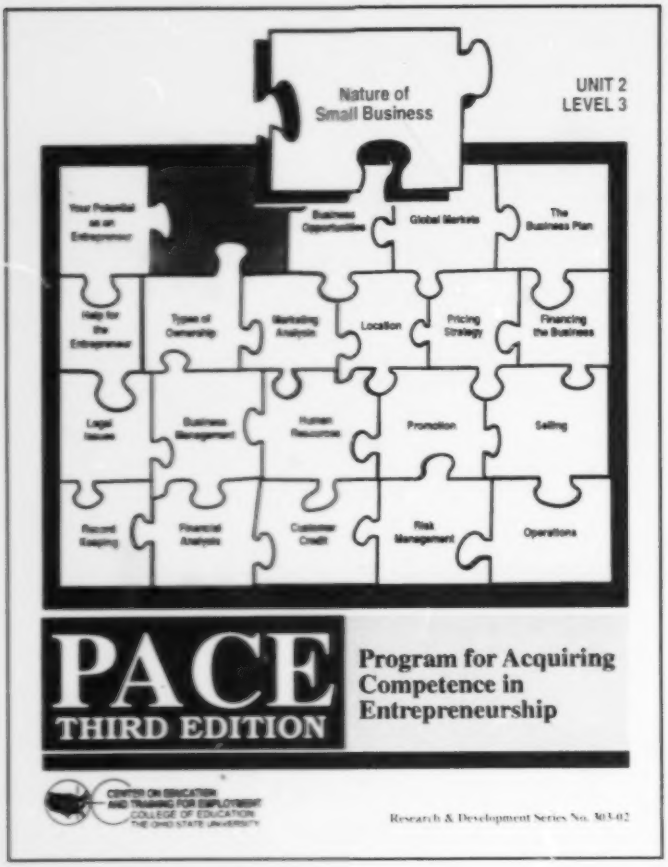

Objectives:

- Explain the concept of a free enterprise economy.
- Discuss the philosophy of a customer-driven economy.
- Review the business environment in your community.
- Identify the use of government classifications in business.
- Weigh the advantages and risks of owning your own business.
- Explore the possibilities for entering international trade.

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INSTRUCTOR GUIDE

Unit 2

The Nature of Small Business

Level 3

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. EXPLAIN THE CONCEPT OF A FREE ENTERPRISE ECONOMY	
What is the free enterprise system?	The student is being introduced to the concept of free enterprise system as defined by Adam Smith in his work *The Wealth of Nations*. The instructor should focus the presentation on the four elements of free enterprise, and the concepts of demand, supply, Gross Domestic Product, market equilibrium, profit motive, and free competition. Then, the instructor should lead students in a discussion on government's intervention in a free economy.
2. DISCUSS THE PHILOSOPHY OF A CUSTOMER-DRIVEN ECONOMY	
What is a customer-driven economy?	The instructor could use Peter Drucker's classical work, *The Practice of Management*, as a reference to conduct a comprehensive discussion on the customer-driven economy. In addition, Tom Peters and Nancy Austin's work, *A Passion for Excellence*, could be used for citations.
3. REVIEW THE BUSINESS ENVIRONMENT IN YOUR COMMUNITY	
What is the business environment like in your community?	Attempt to locate an entrepreneur in your community who has recently opened a business. Ask this person to share personal experiences about the business and the business community at-large.
4. IDENTIFY THE USE OF GOVERNMENT CLASSIFICATION IN BUSINESS	
How are governmental standard industrial classification (SIC) codes used in business?	Use a chalkboard or an overhead to list the eight major categories used in SIC classifications. Consult your local library to complete a sample list of SIC codes for different industries within a category. It is important to acquaint students with the SIC search method used by Standard & Poor's, Moody's, Harris' and other directories.
5. WEIGH THE ADVANTAGES AND RISKS OF OWNING YOUR OWN BUSINESS	
What are some of the advantages and risks of owning your own business?	Lead a discussion on the advantages and risks of entrepreneurship. Seek feedback from the class about their personal feelings on the risks and rewards of owning a small business.

Objectives	Teaching Suggestions
6. EXPLORE THE POSSIBILITIES FOR ENTERING INTERNATIONAL TRADE	
What are some opportunities for entering international markets?	Have the students offer their thoughts on what business opportunities for international trade are available to entrepreneurs. The instructor should take one business category at a time and coordinate the discussion accordingly (e.g., what opportunities are available for wholesalers, retailers, financial service firms, manufacturers, etc.).

MODEL ASSESSMENT RESPONSES

1. The free enterprise system is based on four cornerstones: (1) private property, (2) free competition, (3) freedom of choice, and (4) no (or little) government intervention. (1) Private property ensures that the owners of land, factories, buildings, and equipment have economic freedom. (2) Free competition is the driving force in a free enterprise economy. It occurs when producers strive to supply the same market, thereby competing for the same consumers. (3) Freedom of choice for consumers refers to the consumers' decision to buy a certain product. Freedom of choice for producers refers to producers' decision on what products they should produce to satisfy their customers. (4) No (or little) government intervention guarantees producers' choice of what and how much to produce.

2. A market-driven economy is driven by the law of supply and demand. Supply is the amount of products suppliers will offer at a certain price at a certain point in time. Demand is the amount of products consumers will be willing to buy at a certain price and at a time. Supply and demand guide economic activity in the free enterprise system; consumers decide what products they should buy and in what quantities, and producers decide what products they should produce and in what quantities.

3. In a customer-driven economy, producers listen to the customers. Manufacturers produce goods desired and needed by consumers, who, in turn, buy products and services with their dollars. If producers do not produce goods demanded on the market, they will not make profits and will have to exit the market. For example, no matter how sophisticated an automobile is, if consumers have no need for it, the car manufacturers will lose all the money they invested in producing that car.

4. SIC codes classify industries in categories and subcategories so that information can be easily and quickly gathered. The SIC classification system offers information on suppliers, distributors, customers, geographic location, industry ratios, and a wealth of additional information. The system also allows for alphabetical search with SIC cross-references.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
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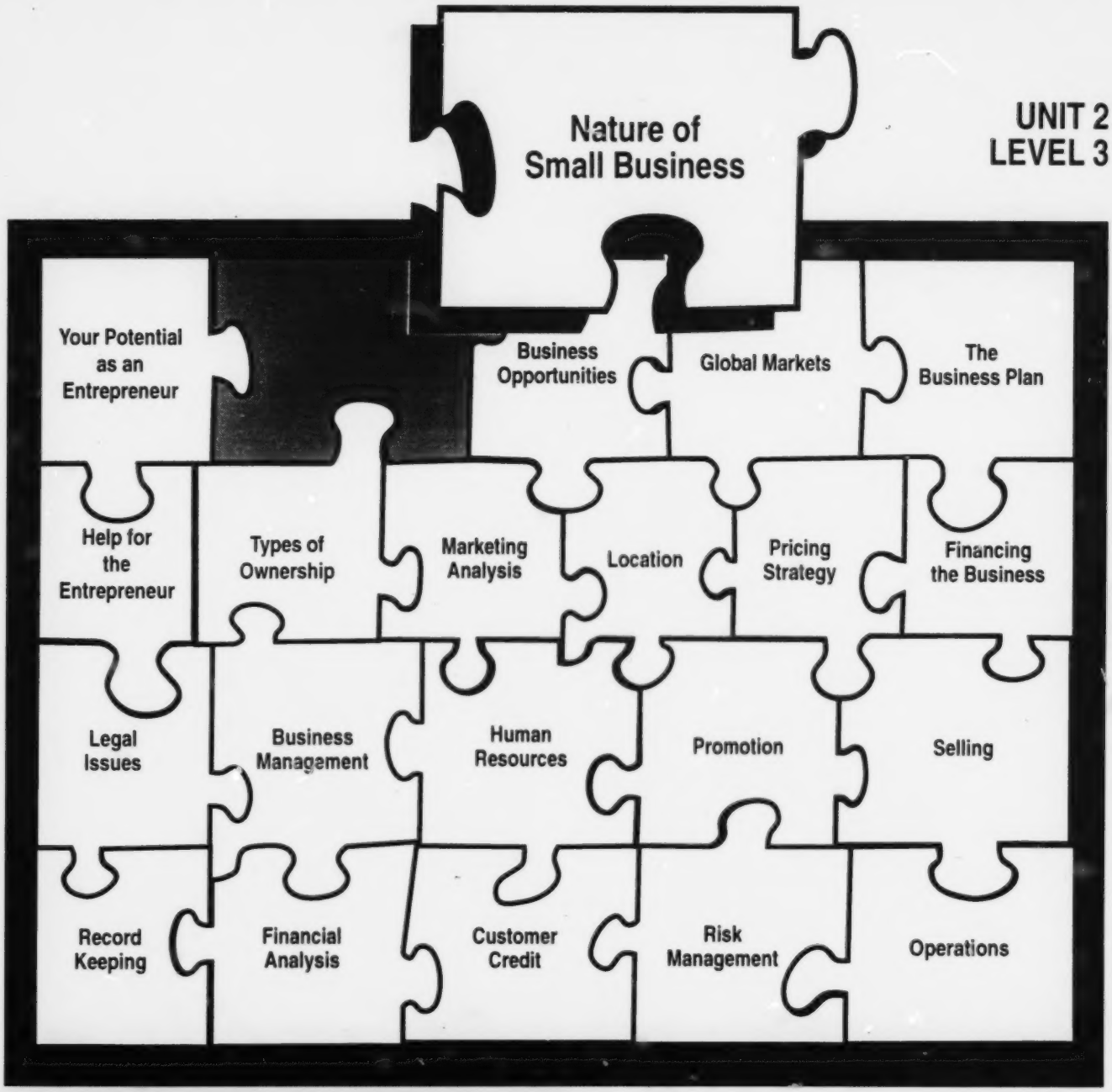

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 303-02

THE NATURE OF SMALL BUSINESS

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1 and Level 2:

   Level 1

   - Discuss the role of small business in a free enterprise system.
   - Define competition, supply, demand, and profit.
   - Explain the importance of small business in the world and American economies.
   - Identify major factors that contribute to small business success.
   - Discuss the major types of business.

   Level 2

   - Describe the role of small business in a free enterprise system.
   - Analyze the effects of supply, demand, profit, and competition on small business.
   - Identify factors that contribute to the success of a small business.
   - Describe the process of starting a small business.
   - Discuss the common reasons for small business failure.
   - Recognize the opportunities for small business in the global marketplace.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

   Customer-driven economy
   Innovation
   Market-driven economy

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THE NATURE OF SMALL BUSINESS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- explain the concept of a free enterprise economy,
- discuss the philosophy of a customer-driven economy,
- review the business environment in your community,
- identify the use of government classifications in business,
- weigh the advantages and risks of owning your own business, and
- explore the possibilities for entering international trade.

WHAT IS THIS UNIT ABOUT?

Small businesses are all about innovation. European and Asian business people consistently rate innovation as a key trait of American business people. Our society benefits from innovation—and small businesses—because human needs are being met in new and better ways. This is what is at the core of every successful small business—a good or service that meets people's needs.

The Economic Conferences held by President-Elect Clinton in late 1992 recognized two major types of small business: *micro small business* and *macro small business*. The micro small businesses represent the greatest segment of small business and are characterized by—

- 20 or fewer employees,
- family or local ownership,
- limited credit needs,

- limited growth, and
- important to fabric of local employment.

Macro small businesses are characterized by—

- 20 or more employees,
- broad public and private owners,
- national or international in scope,
- emphasis on research and development, and
- significant investment in plants and equipment.

In 1970 there were no registered companies in the biotechnology industry. By 1980 there were over 300, and by 1992 there were over 1,200 registered biotechnical companies. This exemplifies small business's ability to respond to the marketplace.

This unit covers the importance of the free enterprise system to the success of small businesses and the influence customers have in determining which businesses are successful. The government classification of small businesses is introduced to show the broad range of businesses that exist and suggestions are given as to how this information may be used. Finally, an opportunity is presented to examine the role of small business in your community.

WHAT IS THE FREE ENTERPRISE SYSTEM?

Adam Smith, the founder of modern economics, described in *The Wealth of Nations* a new, free enterprise, market driven, economic system based on four basic elements: private property, free competition, freedom of choice, and little or no government intervention. These four basic elements are the cornerstones of our present day free enterprise system.

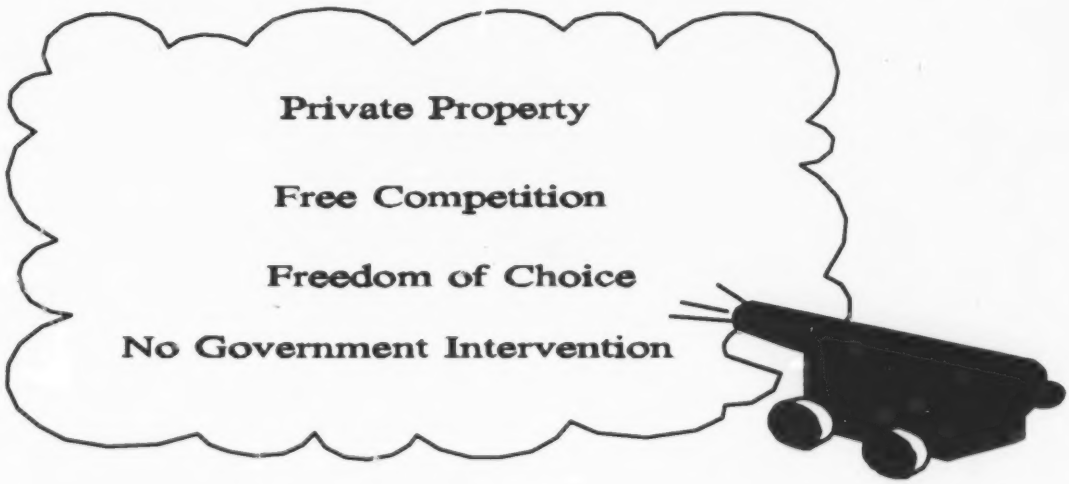
Private property. Smith was one of the first to suggest that private property provides motivation to the owners. He claimed that only with the private ownership of productive resources such as land, factories, and equipment could individuals be motivated to produce the goods and services needed by society. At about the same time, early American leaders such as Thomas Jefferson also were advocating the need for economic freedom for all, as well as political freedom.

Free competition. Smith believed that free competition was a regulating force in the free enterprise system. Free competition occurs when two or more producers strive to supply the same market without outside interference from the government. When producers have to compete for consumers, they are motivated to provide the highest quality at the lowest possible prices. If one producer is able to produce and sell a product at a profit, other producers are attracted to the market. Multiple competitors create an environment that works to prevent overcharging.

Freedom of choice. In order for free competition to occur you also need freedom of choice. In a free market-place, consumers decide which products they will buy and from whom. Also, producers are free to choose which products they will produce. Since consumers are free to demand products to meet their evolving needs, this leads to producers making and selling new products to satisfy those needs.

Today these four basic elements of free enterprise are still in place although government has become involved in regulating business in areas such as antitrust, labor, taxation, and environment. These four cornerstones are still in place mostly as Smith envisioned.

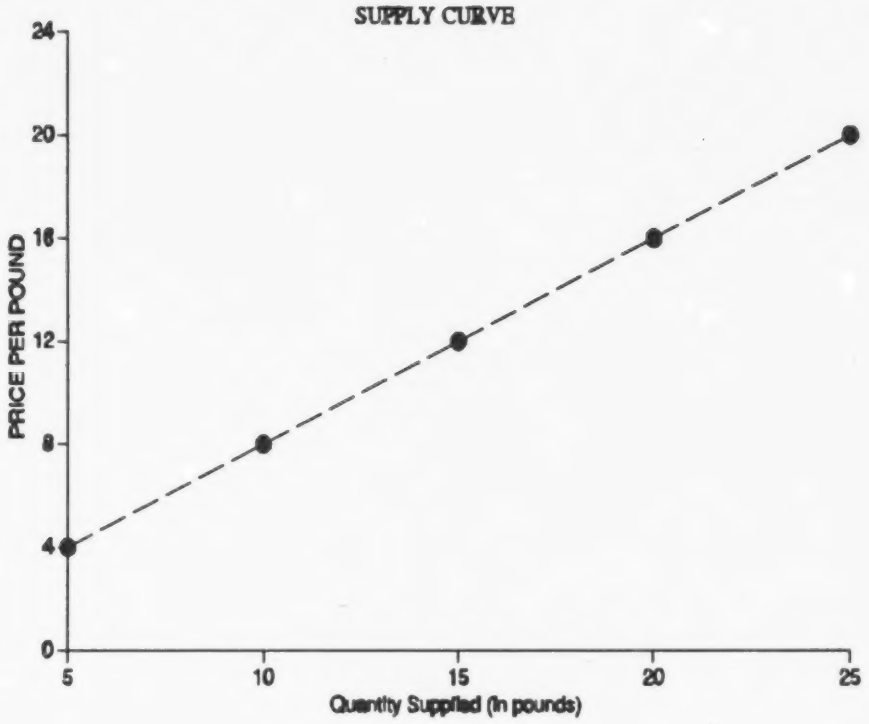
In addition to these four basic elements of free enterprise, Smith also identified laws that help explain how the system works. Three of these laws are the law of supply



No government intervention. Smith's final cornerstone of free enterprise is freedom from government intervention. He believed that, in a system of private property, free competition and freedom of choice, there was no need for the government to intervene. He believed government intervention could not improve upon the private collective decisions of the nation's individuals concerning what to produce and how much to produce.

and demand, the profit motive, and the law of competition. However, before discussing these economic laws, let's briefly describe the concepts of a *customer-driven economy* and its effect on *supply and demand.*

Supply is the quantity of a good or service that producers will offer at a given price at a given time. In other words, on any particular day there are thousands of companies offering goods and services to consumers at specific prices. For example, if today you walked into your local supermarket you would find microwaveable frozen dinners in

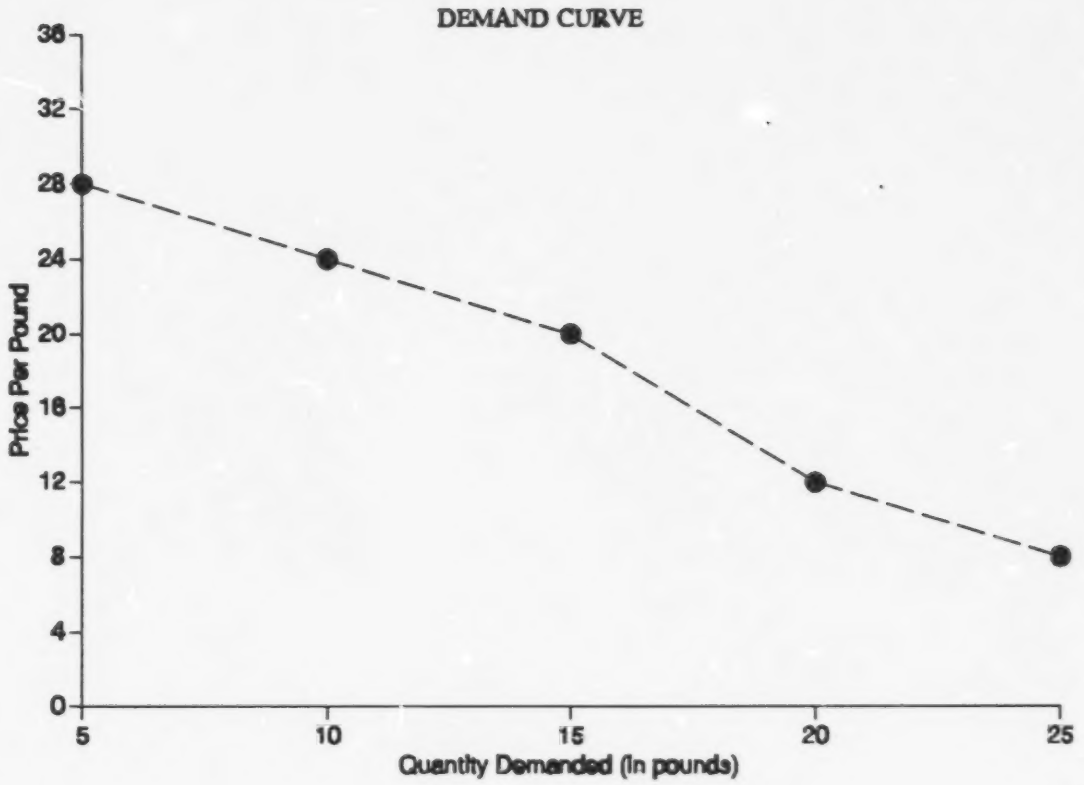


the frozen food section. There are several producers who are willing and able to provide these dinners to consumers at the prices you find marked on the shelves or packages. If you were to add up all the microwaveable frozen dinners in all the supermarkets in all the neighborhoods around the world, this would be the total supply of these dinners.

Demand is the quantity of a good or service that consumers are willing to purchase at given price at a given time. In other words, on any given day, there are millions of consumers who are offering to buy certain goods and services at specific prices.

Returning to the supermarket, today there are thousands, maybe millions of individual consumers who have the desire and the means to walk into their local supermarkets and buy frozen dinners at the listed price. If you were to add up all the frozen dinners that all consumers buy today, this would be the total demand for these dinners.

Applying these two concepts, supply and demand, to all goods and services in the economy, you can see that all goods and services producers are willing to offer is the total *supply* of all goods and services. Likewise, all of the goods and services consumers are willing to buy is the total *demand* for goods



and services. All of these goods and services that are produced each year in a nation is known as the *Gross Domestic Product* (GDP).

Returning to Smith's laws, the law of supply and demand states that the supply of a good or service will tend to rise when demand is great and fall when demand is low. Supply and demand guide economic activity in the free enterprise system. This means that consumers decide what goods and services they want and in what quantities. And in response to these consumer wants, producers who wish to make a profit will supply those goods and services. No government intervention is needed to determine what producers should make and sell.

The interaction of supply and demand results in a *market equilibrium*. If too few goods are offered to satisfy consumer demand, the price will rise and more producers will enter the market. If too many goods are available, the price will fall and some producers will exit the market. Eventually the amount of goods demanded and the amount of goods supplied will equalize at a certain price. When this occurs the market is said to have reached equilibrium. Therefore, it is this interaction of supply and demand that

determines both the price of a product and the total quantity produced and sold.

As an example of the law of supply and demand, let's consider the fruit market. During the late summer or early fall when fresh peaches are most plentiful, the price falls. In the winter, when fewer growers can supply fresh peaches the price rises. If the surgeon general reported that eating three fresh peaches a day would lengthen your life by 5 years, most likely the demand for fresh peaches would greatly increase. In the first few years, prices would increase because of this greater demand and the inability of growers to increase supply substantially since it takes several years to raise additional peach trees. But because of the higher prices and profits for peaches, growers would rush to increase supply of fresh peaches. Eventually the supply of peaches would catch up to the demand and prices would fall to a level that made additional supply unattractive. The market has once again reached equilibrium.

A second law Smith identified is the *profit motive*. Profit motivates people to assume the risk of producing goods and services in the hope that they will earn a profit. There is risk involved in every business venture. Time and money are invested without assurance beforehand that the product will sell. Because people expect to make a profit, they are willing to make these investments. In the free enterprise system, profit is the carrot that motivates people to supply consumer demands.

A third law Smith described is the law of *free competition*. Competition is the force that makes the free enterprise system work. Competition is the underlying force that allows the law of supply and demand to regulate the production of goods and services and prevent excessive profits. Consumers compete for the products and services that are available, ensuring that producers are able to cover their costs and make a profit. On the other hand, producers must compete for sales to consumers, ensuring that profits don't get too large and prices to consumers don't become unnecessarily high. Therefore, between the pressure of these two forces, consumer competition and producer competition, prices are regulated.

WHAT IS A CUSTOMER-DRIVEN ECONOMY?

Peter Drucker, author of the classic work *The Practice of Management* (1959), said it well when he described the importance of the customer: "There is one valid definition of business purpose: to create a customer."

Tom Peters and Nancy Austin, co-authors of *A Passion for Excellence* (1985), identified two critical factors that appear to separate the truly superior business firms from the rest of the pack.

> In the private or public sector, in big business or small, we observe that there are only two ways to create and sustain superior performance over the long haul. First, take exceptional care of your customers . . . via superior service and superior quality. Secondly, constantly innovate. That's it.

Again, notice that the customer lies at the heart of the business process. Everything that the business does is designed to meet consumer needs and demand.

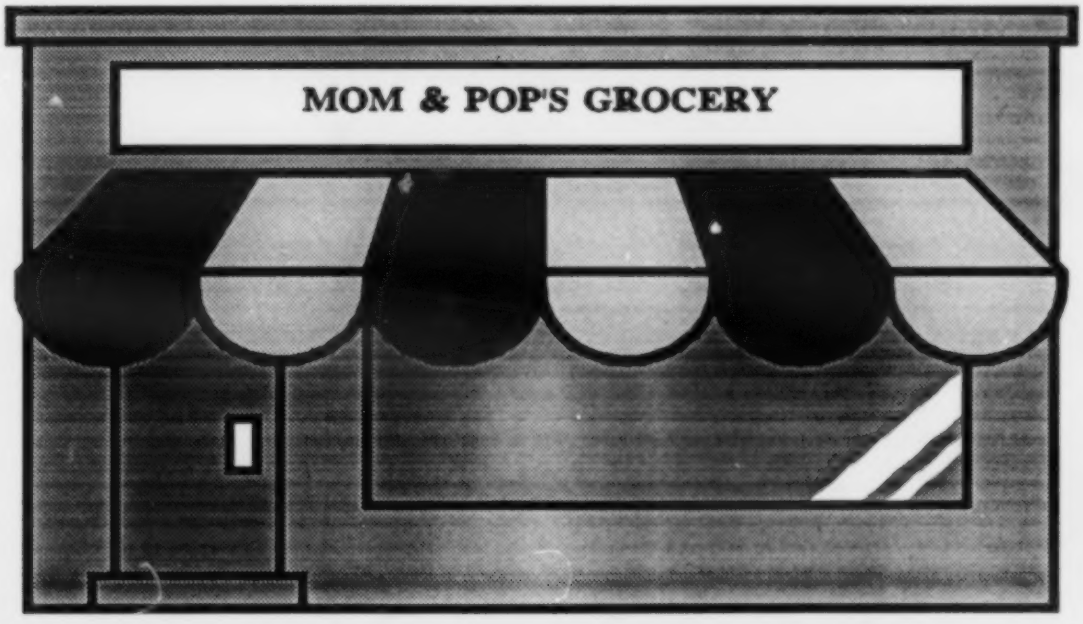
In a market economy, which is also known as a *customer-driven economy*, the customer is king. Customers tell businesses which products and services to supply, in what amounts and at what price. They do this by spending their dollars in the marketplace, choosing to satisfy some wants but not others.

Customers vote with their dollars for products they want. Companies respond by supplying products to satisfy this demand. Those who succeed in efficiently satisfying consumers earn a profit and remain in business.

Let there be no misunderstanding—businesses exist to serve customers. The customer of today is very demanding and companies likewise today are very competitive. Customers call the shots. They will reward those who are willing and able to meet their needs. They will also decide what companies fail to do so and will not support them.

WHAT IS THE BUSINESS ENVIRONMENT LIKE IN YOUR COMMUNITY?

A good way to gain insight into the environment for small business in your community is to examine the factors that affect businesses. By talking to local entrepreneurs, observing other businesses and people,



and doing some research at your library you can learn a lot about these factors.

When considering your local business environment there are a number of factors to consider. You will find it helpful to examine these:

- **The market**. The market, the total number of buyers for a product, must be considered first. The important factors to explore are the number of potential customers, the specific attributes that make people potential customers for a particular good or service, and their ability to purchase these goods.

Consumer behavior can be analyzed by considering demographic, psychographic, and socioeconomic factors. Demographic factors are sex, age, marital status, family size, and the stage of family life cycle.

Psychographics refers to factors such as personality attributes and lifestyles. *Socioeconomic* factors are occupation, education, income, social class, or culture. These kinds of factors often determine what kinds of products and services people need and can buy. For example, a young couple just starting out with small children will have different product needs and purchasing power than will a couple nearing retirement with no children at home.

- **Suppliers**. Many businesses rely on other companies to supply goods and services to them. Reliable sources of competitively priced, high-quality goods are a critical factor for the success of many businesses—especially manufacturing firms. The presence or absence of such suppliers greatly impacts the business environment.

- **Competitors**. Competition often varies from one geographic location to another. It is important to have a good understanding of who your competitors are and their strengths and weaknesses. One area may have companies that are doing a very good job of meeting customer needs, whereas another area may not. This kind of knowledge helps reveal where the opportunities are and how to take advantage of them.

- **Growth trends**. Another factor that contributes to the business environment in your community is economic growth. An area that is experiencing a growth in the number of people or businesses usually benefits from an increase in spending on goods and services. This often presents opportunities to expand or establish businesses to meet these increasing demands.

- **Infrastructure**. The supporting infrastructure in a locality also affects businesses. Airports, highways, railroads, and river transportation all make it easier to do business. The presence of universities, and vocational schools helps support businesses by providing a trained work force that might be difficult to find elsewhere.

- **Government regulations**. A final factor affecting your local business environment is government. Governments—local, state and federal—all have the responsibility and authority to pass many laws and regulations that have a great

impact upon businesses. Federal laws such as those dealing with the environment and hiring practices are primarily uniform across the nation.

But both state and local laws and regulations vary significantly. For example, tax rates, zoning laws, and business permits can be quite different from one community to another. Some localities are more attractive to opening businesses than others, based solely on local laws and regulations.

It is important to recognize that each of these factors, in one way or another, affects businesses. Understanding these factors is important to planning what type of business to open and how to operate it successfully.

HOW ARE GOVERNMENT STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES USED IN BUSINESS?

The United States government has developed a system for classifying businesses called the *Standard Industrial Classification* (SIC). The system is designed to help classify businesses by type of activity in which they are engaged. Those eight categories are wholesale, services, retail, manufacturing, agricultural services, construction, finance/insurance and real estate, and transportation services. Examples of each of these follow:

- **Wholesale Trade**. Crucial to the economy are firms providing services by acting as a middleman between manufacturers and retailers. Examples of services provided are warehousing, distribution, financing, and account development.

- **Services**. More people work in service industries than any other kind. The list of types of firms in this category seems endless. Examples are lodging, accounting, legal services, health services, all types of repair services, educational services, and personal services such as haircuts.

- **Retail Trade**. Firms that sell to the end-consumer are called retailers. Examples include clothing stores, car dealers, hardware stores and supermarkets.

- **Manufacturing/Mining**. Manufacturing involves all types of goods production such as machine shops, clothing producers, furniture makers, electronic components producers, and so on. Mining includes companies that extract resources from the ground, such as coal and oil.

- **Agricultural Services**. This category includes all services that support agricultural related businesses such as farming, forestry and commercial greenhouses, seed, fertilizer, and equipment sales.

- **Construction**. This includes typical construction trades such as carpentry, masonry, electrical and plumbing as well as general contracting.

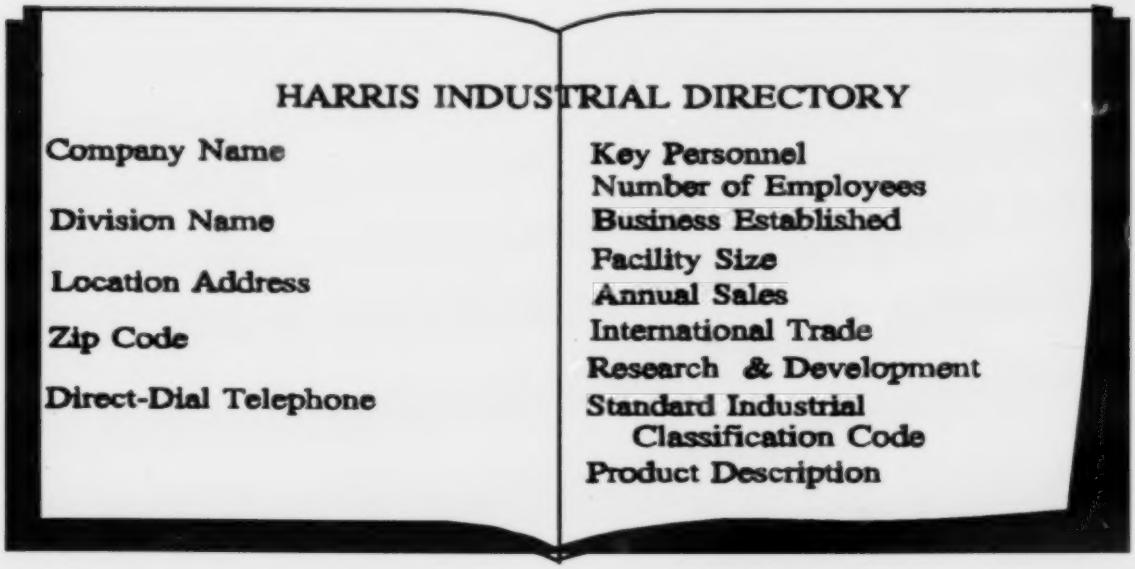
- **Financial Services/Insurance and Real Estate (FIRE)**. The financial services industry has become a major industry worldwide. Banking, insurance, and investment services fall into this category as well as real estate or property sales.

- **Transportation**. The movement of raw materials, semifinished goods and finished goods is a major industry. Although transportation modes include rail, highway, water and air, most small businesses in this industry compete in highway transportation.

Commercial directories such as the *Harris Industrial Directory* are available for researching specific companies by using two and four-digit SIC codes which classify the business by major industry group and a more narrowly defined industry grouping. The directory also allows both geographic and alphabetical searches, with cross-referencing to the SIC codes.

The information provided for these firms includes company name, division name, location address, zip code, direct-dial telephone number, information on key personnel, number of employees, year the business was established, size of the facility in square feet, approximate annual sales, type of involvement in international trade and in research and development, Standard Industrial Classification number, and product description.

Many businesses find the SIC codes and the commercial directories to be excellent sources of information on potential suppliers, distributors, and customers. For example, if you were looking for suppliers of electric motors and generators, you could look in a directory like the *Harris* which would list electrical and electronic machinery, equipment and supplies under the two-digit SIC code of 36. Within this section you would find these goods broken down into smaller categories. Motors and generators are listed under a four-digit code 3621. All companies engaged in this business in the geographic area covered by that particular directory, are



listed alphabetically, with a cross-reference to the geographic section of the directory which contains the full information on each firm.

Many entrepreneurs feel that personal achievement is the number one advantage of owning a small business. Loss of time to devote to personal interests outside the business is reported to be the number one disadvantage.

WHAT ARE SOME OF THE ADVANTAGES AND RISKS OF OWNING YOUR OWN BUSINESS?

It is important to enter into any business venture with solid data and an open mind. The risks will usually not be as readily apparent as the advantages. Most entrepreneurs work from a very positive perspective. This perspective, although completely necessary for success, will tend to cloud judgements when considering risks. Solid business decisions are based on solid, complete information. It is your job to set up the network that will provide you with much of the help you will need.

It is important to note the potential stress-related health risks associated with business ownership. A healthy approach to dealing with the inevitable stress will enable you to turn a potential risk into an advantage. Figure 1 lists a few advantages and potential risks of business ownership. Your own list may be very different. Talk to other entrepreneurs. Find out if they would list any of the same items. Once you have identified the possible risks and have made plans to address them, don't worry about them. No plan has a guarantee for success, and remember—you have already decided that the risk is worth the potential rewards. Enjoy being an entrepreneur.

ADVANTAGES	POTENTIAL RISKS
Independence	Loss of personal time
Development of multiple skills	Fear of failure
Use of all skills	Perceived loss of personal time
Sense of responsibility	Reputation after failure
Feeling of flexibility/control	Financial loss or ruin
Sense of leadership	Loss of self-confidence

Figure 1. Advantages and Potential Risks of Business Ownership

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WHAT ARE SOME OPPORTUNITIES FOR ENTERING INTERNATIONAL MARKETS?

There was a time when only large corporations, such as IBM, General Motors, General Electric, and Hewlett Packard were big players in the international markets. Small businesses were able to prosper in a flourishing U.S. market in continuous expansion, without worrying about "going global." This is not the case anymore. Today's market has become very competitive; large and small firms together face an increasing number of both domestic and foreign competitors. More and more companies are entering the U.S. market; conversely, small businesses must now consider business opportunities in overseas markets.

There is no limit for what part of the world or what type of product people can benefit from. The scarcity of a product in a foreign country could become an excellent source of profits for wholesalers. If it would be less expensive to produce the good in the foreign country rather than home, manufacturers will move their facilities overseas and start operation. This was the case with Mexico before the North American Free Trade Agreement (NAFTA) was passed in November 1993. Many automobile, electronics, industrial equipment, and other manufacturers understood that an inexpensive labor force in Mexico was a great opportunity to lower manufacturing costs, so they moved their operations to Mexico. With NAFTA enacted, there will be a great many opportunities for entrepreneurs in the financial service, transportation, management consulting, franchising and retail industry.

With the newly opened eastern European markets, many business owners realized they could benefit from expanding their operations in that part of the world. Retailers, fast-food restaurant franchisers, manufacturers of electronics, computer hardware and software, industrial and agricultural equipment, business consultants, real estate, financial service, and insurance firms have already opened businesses in Hungary, Poland, Romania, The Czech Republic, Slovakia, and the Newly Independent States.

It is said that entrepreneurs are able to see opportunities where other people can see only problems; they have the capability to turn problems into opportunities which generate profits. However, entrepreneurs should carefully evaluate costs and risks involved with doing business overseas. Thoughtful planning should be undertaken only after understanding the market conditions and competition in the foreign country.

Outside professionals and numerous trade publications are available to entrepreneurs to help them carry out their plans. In addition, a complex network needs to be developed to understand and avoid potential pitfalls involved in trading overseas. Networking helps entrepreneurs generate reliable and strong business relationships in an environment with significant economic, social, and cultural differences. (For more information on business opportunities in international markets, refer to PACE Unit 4, Global Markets).

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Standard Industrial Classification (SIC) codes are useful sources of information to the entrepreneur. Two and four-digit SIC codes are available to help you learn more about a specific industry. Check with the state Department of Economic Development or a local library to obtain your own copy of these codes.

From your list of SIC codes, find the industry of interest to you. Write at least two trade associations for some general information about the industry. Use the information to prepare a report on the history and current state of your chosen industry. Try to include some information on specific products or services within the industry.

B.

The purpose of this activity is to increase your knowledge of a *customer-driven economy*. Either call, or preferably visit, several local retailers. Include businesses that carry staple items like food and clothing.

Create a short list of questions designed to find out what methods they use to determine what it is their customers want or need. Ask to speak with the manager and explain the purpose of your call/visit and ask them if they have a few minutes to share with you. If they agree, proceed with your questions. If not, thank them and try another business.

Take notes from your conversation and write a short report about your findings.

GROUP ACTIVITIES

A.

The instructor leads a discussion based on the students' findings in the preceding INDIVIDUAL ACTIVITY A. The goal of the discussion is a comprehensive list of how businesses communicate with their customers.

B.

Work in teams of four to six. The goal of this activity is to make you more aware of the factors that contribute to the success of a small business. Each team appoints a team facilitator (leader) and a recorder to take discussion notes. Each team member contacts six local small business owners either by letter, phone, or in person. Clearly explain to each business owner the purpose of your inquiry. State your question in order to ascertain what factors have contributed to their personal business success. Take thorough notes or tape record the responses

(be sure to get permission before you record any conversations).

When each member has collected his or her responses, the team reconvenes to share the information and create a comprehensive list for presentation to the class. A general discussion, facilitated by the instructor, focuses on the responses and the experience of collecting the data.

C.

Work in teams of four to six. The goal of this activity is to see how imagination and creativity have been used in a customer-driven economy. Each team appoints a team facilitator (leader) and a recorder to take discussion notes.

List and discuss as many examples you can think of where a need or gap created by potential customers was filled by creative entrepreneurism. A general discussion, facilitated by the instructor, focusing on the responses and the experience of collecting the data should follow.

CASE STUDY

Cory Frye, an avid surfer, sailboarder, and traveler, lives just north of San Francisco. Cory can now add entrepreneur to his resume. Cory often travels great distances overland. After an exhaustive search he was disappointed not to find a trailer that would accommodate his assortment of wave riding vehicles and gear. His disappointment turned to innovation when he found through many fireside conversations with his fellow enthusiasts, that they too experienced this void in their equipment. From experience Cory knew that there were vast surf/sailboard markets worldwide, in places like South America, Australia, the coastal U.S., and the Hawaiian Islands, to mention a few.

Cory designed the lightweight, efficiently designed "COOL MULE" recreational trailer. The design was mostly new age polymers and fiberglass and is easily converted for multiple use. The "COOL MULE" is now being manufactured and successfully sold globally through a network of manufacturer's representatives, retailers, and catalogs.

DISCUSSION QUESTIONS

1. How was Cory's decision to manufacture influenced by the *customer-driven economy*?
2. How did Cory analyze the potential of the business environment?
3. Before Cory committed to actually manufacturing his product what were some of the advantages and risks he had to consider?
4. What did Cory need to consider before he explored the possibility of exporting (international trade) of his product?

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ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Explain the cornerstones of Adam Smith's concept of *free enterprise.*

2. Describe the concept of a market-driven economy.

3. Describe and give a brief example of the concept of a customer-driven economy.

4. Explain the use and importance of SIC codes for entrepreneurs.

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PACE

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Resource Guide
Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business